



# **Legislative Audit Division**

**State of Montana**

**Report to the Legislature**

**December 2003**

## **Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2003**

### **Montana Department of Transportation**

**This report contains recommendations related to:**

- ▶ **Federal Davis-Bacon Act requirements.**
- ▶ **Highway Traffic Safety Program.**
- ▶ **Monitoring of audit assessments.**
- ▶ **Recording of infrastructure assets.**
- ▶ **Accounting misstatements.**

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**03-17**

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning  
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# LEGISLATIVE AUDIT DIVISION

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December 2003

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation for fiscal years 2001-02 and 2002-03. Included in this report are recommendations concerning controls to ensure compliance with federal Davis-Bacon Act requirements, management controls over the Highway Traffic Safety Program, monitoring of audit assessments, subrecipient monitoring, and accounting misstatements related to recording federal indirect cost revenue and depreciation of capital assets. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

*Signature on File*

Scott A. Seacat  
Legislative Auditor



# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2003**

## **Montana Department of Transportation**

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Chris G. Darragh, Laurie H. Evans, Angie Lang, Paul J. O'Loughlin, Tiowna Sherrill, and Joyce Weber.



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## Appointed and Administrative Officials

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			<u>Term Expires</u>
<b>Montana Transportation Commission</b>	Shiell Anderson, Chair	Livingston	2005
	Nancy Espy, Vice Chair	Broadus	2007
	Kevin Howlett	Arlee	2007
	Meredith Reiter	Billings	2005
	Dan Rice	Great Falls	2005
<b>Aeronautics Board</b>	John Rabenberg, Chair	Fort Peck	2007
	Frank Bass	Moore	2005
	Craig Denney	Billings	2007
	Lanny Hanson	Glasgow	2005
	Lonnie M. Leslie	Miles City	2007
	Charles J. Manning	Kalispell	2007
	Will Metz	Laurel	2005
	Kenneth Tolliver	Billings	2005
	George Werner	Dillon	2005
<b>Department of Transportation</b>			
<b>Administrative Officials</b>	David A. Galt, Director		
	Jim Currie, Deputy Director		
	Russ McDonald, Administrator, Human Resources		
	Tim Reardon, Chief Counsel, Legal Services		
	Monte Brown, Administrator, Administration Division		
	Debbie Alke, Administrator, Aeronautics Division		
	Joel Marshik, Administrator, Highways & Engineering Division		
	John Blacker, Administrator, Maintenance Division		
	Drew Livesay, Administrator, Motor Carrier Services Division		
	Sandy Straehl, Administrator, Rail, Transit & Planning Division		
<b>District Administrators</b>	Loran Frazier – Missoula		
	Jeff Ebert – Butte		
	Mick Johnson – Great Falls		
	Bruce Barrett – Billings		
	Ray Mengel – Glendive		

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### Montana Department of Transportation

This report documents the results of our financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2003. We issued a qualified opinion on the financial schedules presented in this report. This means the reader should use caution when relying on the presented financial information and the supporting information on the state's accounting system.

This report contains nine recommendations directed to the department. The first six recommendations are control issues related to federal Davis-Bacon Act requirements, Highway Traffic Safety Program, Audit Assessments, Recording of Highway Assets, Cash Change funds, and Travel Advances. Also included are two recommendations concerning subrecipient monitoring and accounting misclassifications of federal indirect cost recovery revenue and capital assets. Of the seven recommendations from the prior audit, we found the department fully implemented four recommendations, partially implemented two, and one recommendation was not applicable during the current audit period.

#### Recommendation #1

We recommend the department evaluate, revise, and monitor control procedures to ensure compliance with federal Davis-Bacon Act provisions. .... 7

Department Response: Concur. See page B-4

#### Recommendation #2

We recommend the department continue to implement management control procedures to ensure the continuity of the Highway Traffic Safety Program..... 9

Department Response: Concur. See page B-4

#### Recommendation #3

We recommend the department establish a system to monitor and collect audit assessments for International Fund Tax Agreement, International Registration Plan, and Special Users audits..... 11

## Report Summary

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Department Response: Concur. See page B-4

Recommendation #4

We recommend the department establish management controls to ensure the accuracy of the transactions recorded for infrastructure assets. .... 14

Department Response: Concur. See page B-5

Recommendation #5

We recommend the department fully implement established procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds..... 14

Department Response: Concur. See page B-5

Recommendation #6

We recommend the department regularly reconcile its Payroll/Personnel system to the state's accounting system for travel advances..... 16

Department Response: Concur. See page B-5

Recommendation #7

We recommend the Highway Traffic Safety Program monitor subrecipients as required by federal regulations..... 16

Department Response: Concur. See page B-5

Recommendation #8

We recommend the department record indirect cost recovery revenue in compliance with state law..... 18

Department Response: Concur. See page B-6

Recommendation #9

We recommend the department properly record depreciation expense on the accounting records. .... 19

Department Response: Concur. See page B-6

# Introduction

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## Introduction

We performed a financial-compliance audit of the Montana Department of Transportation (department), for the two fiscal years ended June 30, 2003. The objectives of the audit were to:

1. Obtain an understanding of, and, if appropriate make recommendations for improvements in the management and internal controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations during the audit period.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2003.

As required by section 17-8-101(6), MCA, we performed procedures to evaluate charges for services for costs incurred in the department's two Internal Service Funds. We found the charges and fund equity were reasonable and commensurate with costs for the equipment internal service fund.

In the motor pool internal service fund we found rates and fund equity were not reasonable for the two fiscal years ending June 30, 2003, because the rate calculation did not include recognition of prior years' profits or losses. We reviewed methodologies and procedures implemented by the department in their preparation of the 2005 biennium rates approved by the 2003 Legislature. Based on our audit work, the motor pool rates developed for the 2005 biennium were reasonable, properly supported by the accounting records, and in accordance with state law and federal OMB Circular A-87. The rates included the recognition of prior year losses or gains. As a result, we make no further recommendation to the department at this time.

## Introduction

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In accordance with section 15-37-307, MCA, we analyzed the costs to implement the recommendations in this report and believe the cost is not significant.

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## Background

The Montana Department of Transportation (department) is responsible for establishing a public transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality.

The department is under the direction of the Transportation Commission (commission) and the director. The commission is comprised of five members appointed by the governor and confirmed by the Senate for four-year terms. The commission determines construction priorities, selects construction projects, awards construction contracts, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off-system in the state maintenance system. The commission may delegate certain functions to the director, who is appointed by the governor and confirmed by the Senate.

The department had approximately 2,295 full-time equivalent (FTE) positions during fiscal year 2002-03. The department's primary sources of funding is federal funds and state motor fuel taxes. Department activities are organized under the Director's Office and seven divisions as described below:

Director's Office (48 FTE) - provides overall direction and management to the department. Included under the Director's Office is Legal Services, Internal Audit, Public Information, and Human Resources.

Administration (61 FTE) - provides administrative support services including accounting, budgeting, planning, program development, purchasing, and research. The Administration Division enforces compliance with motor fuel tax law and collects taxes on gasoline and diesel fuel.

Highways & Engineering (1,049 FTE) - is responsible for project planning through construction. This includes project design, right-of-way acquisitions, issuing contract bids, addressing environmental concerns, awarding contracts, and administering construction contracts. Personnel in five districts (Billings, Butte, Glendive, Great Falls, and Missoula) and in Helena supervise and monitor work done by private contractors.

Maintenance (896 FTE) - is responsible for maintaining: the state's highway systems and its related facilities, equipment and motor pool vehicles, and road condition information and reports.

Motor Carrier Services (112 FTE) - provides services to the commercial motor carrier industry in Montana, enforces statutes and regulations related to vehicle weight, size, licensing, fuel, and safety on the state's highways, and collects gross vehicle weight fees.

Aeronautics (11 FTE) - facilitates the maintenance of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations. The division is advised by the Aeronautics Board whose major function is approving airport grant requests.

Rail Transit & Planning (62 FTE) - provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding public transportation systems.

Information Services (56 FTE) - provides department-wide IT services including network operations, application development, user support, records management, and printing.

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### Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2001, contained seven recommendations to the department. The department implemented four, partially implemented two, and one recommendation was not applicable during the audit period. The recommendations not fully implemented regarding cash change

## **Introduction**

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funds and subrecipient monitoring are discussed in this report beginning on pages 14 and 16, respectively.

# Findings and Recommendations

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## Control Structure

During the audit we reviewed various aspects of the department's control structure. A control structure should be designed to effectively prevent, detect, and facilitate the correction of errors on a timely basis. A properly designed system allows the department to more efficiently meet its state and federal mandates.

The first six sections of the report relate to issues where we believe controls should be improved. These sections relate to compliance with federal Davis-Bacon Act requirements, Highway Traffic Safety Program, audit assessments, recording of infrastructure assets, cash change funds, and reconciliation of travel advances.

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## Davis-Bacon Act Controls and Certification

The department's Civil Rights Bureau (CRB) is responsible for implementing and monitoring the department's civil rights requirements including compliance with Davis-Bacon Act requirements. The Act's requirements are applicable to federal-aid highway contracts in excess of \$2,000. Wages paid to highway construction workers and mechanics must not be less than the published prevailing wage established by the U. S. Department of Labor. All covered employees of subcontractors on federal-aid highway projects are also to be paid in accordance with the Davis-Bacon prevailing wage rates. During fiscal years 2001-02 and 2002-03 the department spent approximately \$280 million and \$306 million of federal-aid highway funds, respectively.

The CRB's responsibilities for monitoring Davis-Bacon Act requirements include reviewing weekly certified payroll reports from prime contractors and subcontractors working on federal-aid construction projects. At the completion of the construction project, CRB prepares a labor certification letter that indicates all the required payrolls for the project have been received and reviewed. The labor certification is required by department policy and is part of the project completion checklist the department must prepare to certify the federal-aid project is completed.

The following section discusses concerns related to the controls designed to ensure compliance with the federal Davis-Bacon Act.

## Findings and Recommendations

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### **Controls Over the Davis-Bacon Act**

During the audit we reviewed 17 completed construction projects and tested the controls over the receipt of required documentation and certification of required payrolls in the CRB. For one of the projects reviewed, we could not verify the payrolls for two subcontractors who were listed on the labor certification as having submitted payrolls.

The subcontractors completed and were paid for the work performed. However, department personnel did not have any explanation as to why the required certified payrolls were not on file at CRB. The CRB's normal control system is to monitor all subcontractors for which it has received subcontractor assignment notifications on each construction project. Since a written subcontractor assignment was on file with CRB for each of the two subcontractors, CRB personnel should have investigated the lack of payroll documents for the two subcontractors prior to completing the final labor certificate. The labor certificate indicated all required payrolls had been received. We question the allowability of \$24,739 for the payments made to these two subcontractors because no documentation of compliance with Davis-Bacon Act exists.

After we identified the lack of certified payrolls, the department's CRB personnel performed a subsequent investigation. Department personnel spoke to the owners of the subcontract companies who said they completed the work as owners. Owners are exempt from Davis-Bacon Act requirements; however, CRB's policy still requires a payroll form from the salaried owner indicating the owner did the work. CRB does not have any documentation from either of the subcontract salaried owners. As a result, at the time of the final labor certification, the department did not have adequate documentation of compliance with Davis-Bacon Act provisions or support that the Act was not applicable.

In addition, we noted the following two issues indicating weaknesses exist in the control procedures designed to ensure compliance with Davis-Bacon Act provisions.

## Findings and Recommendations

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- ▶ While reviewing CRB payroll files for compliance with Davis-Bacon Act requirements, we reviewed the accuracy and completeness of the project labor certifications. For the 17 files reviewed, we found that three labor certifications were missing a total of seven subcontractors who worked on the projects. The subcontractors not included on the labor certifications cause us to question the accuracy of the labor certifications.
- ▶ CRB receives a copy of all subcontractor notification forms from the department's Construction Bureau approving the request to subcontract some of the project. When CRB has knowledge of a subcontractor working on a project, they expect to receive payrolls and to investigate if the payrolls have not been received. Since payrolls are received by CRB through the project engineers for all contractors and subcontractors, CRB may receive payrolls for subcontractors regardless of whether it has received the assignment notification form.

According to personnel within the Construction Bureau, there is an ongoing debate as to when, or if, assignment approval notifications are required for certain types of project construction work. Because there is no clear policy concerning these notifications, CRB may not be aware of all subcontractors working on a project. Without notification of all subcontractors, CRB cannot identify missing payrolls.

Federal regulations require that the department have an adequate control system to monitor compliance with Davis-Bacon Act requirements. The issues discussed above indicate the department should evaluate and revise its control procedures to ensure compliance with Davis-Bacon Act requirements. These revised control procedures should be monitored to ensure they are completely and consistently implemented.

### **Recommendation #1**

**We recommend the department evaluate, revise, and monitor control procedures to ensure compliance with federal Davis-Bacon Act provisions.**

## Findings and Recommendations

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### **Management Controls Related to Highway Traffic Safety**

The Highway Traffic Safety Program is primarily funded with federal traffic safety funds. We found the following concerns related to the program during the audit period.

- ▶ As of April 2003, the federal fiscal year (FFY) 2002 annual report due to the National Traffic Safety Highway Administration (NHTSA) by December 2002 had not been submitted.
- ▶ Approximately \$125,000 of FFY 2002 program costs were incurred beyond the normal carry forward period in FFY 2003. These costs, which were paid from state gas tax funds, have not been approved by NHTSA so the department has not received reimbursement for these costs.
- ▶ As noted on page 16 of this report, the program did not adequately monitor its sub-recipients during the audit period as required by federal requirements.
- ▶ The state plan for FFY 03 was not approved until August 2003. Therefore, the department has not been able to bill the federal government for approximately \$1 million of expenditures that have been paid from state gas tax funds. The gas tax is an allowable source of funding; however, it was not the state's intent to spend state gas tax funds to pay costs of the federal program. As a result, the department lost investment earnings of up to \$20,000.

In April 2003 the department received a letter from NHTSA indicating the federal agency had significant concerns about the program that warranted immediate action. Since that time, department management has worked to implement controls that include written procedures to address the concerns mentioned above, as well as other concerns raised by federal program reviews and an internal audit of the program.

Department personnel indicated the problems occurred primarily because key personnel were absent from their positions and there were no written policies and procedures. Key positions have been filled and the department believes significant progress has been made. Many of the items on an 11-page management action plan have been implemented.

## Findings and Recommendations

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Funding for this program increased from approximately \$11 million in FFY 2002 to \$18.5 million in FFY 2003 because of a sanction on available funding for federal-aid highway construction projects. The state was sanctioned because the state's laws do not meet federal requirements regarding open container and repeat intoxicated driver offenses. The growth of this program increases the importance of the department implementing management controls to ensure the continuity of the program.

### **Recommendation #2**

**We recommend the department continue to implement management control procedures to ensure the continuity of the Highway Traffic Safety Program.**

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### **Monitoring Procedures Over Audit Assessments**

We found the department does not have procedures in place to ensure audit assessments resulting from audits of participants in the International Fuel Tax Agreement (IFTA), International Registration Plan (IRP), and Special Users (SU) are properly controlled. A brief description of IFTA, IRP, and SU follows:

- ▶ IFTA is a reciprocity agreement among member states and Canadian provinces to simplify the reporting of fuel used by motor carriers operating in more than one jurisdiction.
- ▶ IRP is a method of registering fleets of vehicles in one home or "base" jurisdiction for motor carriers operating in two or more member jurisdictions.
- ▶ SU are contractors that are required to report diesel fuel usage of nontaxable fuel.

IFTA and IRP rules are published by respective associations and cover member responsibilities, operating procedures, and audit responsibility. Individual member states are charged with developing processes and procedures, including audits, for controlling compliance with IFTA and IRP requirements. Because of the similar nature of the audited records, IFTA and IRP audits are done at the same time. The department's internal audit staff performs some of these audits and the others are contracted to private

## Findings and Recommendations

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auditors. The department also audits SU for diesel fuel usage to ensure accuracy of the amounts of non-taxable fuel claimed by contractors. The Fuel Tax Management and Analysis Bureau (FTMA) is responsible for monitoring IFTA audit results and adjudicating requests for informal appeals. Motor Carrier Services Division (MCS) personnel perform these same functions for IRP audits.

We noted the following items that demonstrate a need to have a system of controls to monitor these assessments.

- ▶ If a carrier has filed an IFTA appeal, MCS personnel indicated they wait until any adjustments have been made to the IFTA assessment by FTMA personnel before finalizing the IRP assessment. We found one instance where the amount a carrier owed related to an IFTA audit was turned over to the state's bad-debt program at the Department of Revenue (DOR) because the carrier was bankrupt. The carrier also had an IRP assessment amount that was not included in the amount sent to DOR. MCS personnel indicated they were not aware of the IFTA assessment or that it had been turned over to the bad-debt program.
- ▶ The carrier involved with the assessments discussed above subsequently applied for and received a new annual IRP license even though the carrier had the outstanding IFTA debt turned over to the DOR. It is not reasonable that the carrier should have been allowed to receive a new IRP license until the outstanding IFTA assessments was paid.
- ▶ After being notified of an audit assessment from the internal audit staff, MCS personnel said they notify collections' staff to send an IRP assessment notice to the carrier. We noted one instance where the audit files indicate MCS had been informed of an IRP audit assessment but the carrier was not sent an assessment. MCS personnel said they had not received notification of the audit assessment from internal audit. MCS does not maintain complete documentation of their communication from internal audit or what they have sent to collections to be billed.
- ▶ One of the files we requested to review had been misplaced. The file related to an IFTA/IRP audit performed in September 2001, and resulted in original assessments under IFTA/IRP of \$51,174 and \$835, respectively. As of April 2003, the department had not

## Findings and Recommendations

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completed a review of the audit and a notification of the audit assessment to the taxpayer had not been sent.

- ▶ Collections personnel noted that past due notices for assessments are sent every 30 days. While reviewing IRP accounts receivable information, we found two accounts with an original billing date of February 21, 2003, and one with March 3, 2003, where past due notices had not been sent as of May 8, 2003. Notices were sent for amounts due, totaling approximately \$1,500, after we inquired about the status of the accounts.

The department should establish controls to monitor the IFTA, IRP, and SU audit assessments to facilitate the necessary communication and coordination between divisions and bureaus to ensure the proper and timely collection of audit assessments.

### **Recommendation #3**

**We recommend the department establish a system to monitor and collect audit assessments for International Fund Tax Agreement, International Registration Plan, and Special Users audits.**

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### **Recording of Infrastructure Assets**

During the audit period the department was required by state accounting policy to record transactions to reflect the costs of building highways as assets on the state's accounting system. Transactions were also necessary to recognize depreciation expense and to record an asset for highway construction projects that are in progress but not fully complete at the end of each fiscal year. The transactions were necessary to facilitate the Department of Administration's preparation of the state of Montana's financial statements in accordance with Governmental Accounting Standard Board (GASB) Statement No. 34. Prior to the issuance of this standard, the asset associated with the value of existing highways was not recorded on the accounting system. Highways are now required to be recorded as infrastructure assets on the accounting system.

The state's accounting system includes a ledger used exclusively to record transactions required by GASB 34 for preparing the state's

## Findings and Recommendations

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entity-wide financial statements. The financial schedules presented in this report are prepared from the “actuals” ledger of the accounting system so they do not, and should not, reflect the activity and misstatements discussed in this report section.

We noted the following issues related to the process the department used to record infrastructure assets on the state’s accounting system.

- ▶ One part of the process for recording these assets required the department determine the transactions necessary to record as assets the cost of highways built between 1974 and 2001. The department recorded this transaction on the asset management (AM) module as instructed by state policy. Information from the AM module flows to the general ledger. When the information from AM processed on the general ledger it properly increased infrastructure assets but it incorrectly decreased current period expenses. Since the activity relates to prior fiscal years, it should not have decreased current period expenses.

As a result, current period expenses are understated by approximately \$2.4 billion and direct entries to fund balance (prior period adjustments) are understated by the same amount.

- ▶ The department’s procedures did not include an analysis of highway’s projects previously included as construction in progress at June 30, 2002, when determining the amounts to record as construction in progress at June 30, 2003. Since many of the projects recorded as construction in progress at the end of fiscal year 2001-02, were completed during fiscal year 2002-03, the projects should not have been included in the balance for construction in progress at June 30, 2003. The completed projects should have been reclassified to highway infrastructure assets.

As a result, construction work in progress is overstated by approximately \$117.6 million, infrastructure assets are understated by approximately \$115.1 million, and expenses are understated by approximately \$2.5 million in fiscal year 2002-03. While reviewing the balance of the June 30, 2002 construction in progress balance, we noted department personnel recorded a transaction in the AM module to remove the entire June 30, 2002, construction work in progress at the end of fiscal year 2002-03. Department personnel do not know why the entry recorded in AM module to remove the construction projects did not flow through to the general ledger.

## Findings and Recommendations

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- ▶ The department's procedures did not include an analysis to properly remove costs and accumulated depreciation for highways that are being replaced. The cost of the replacement highway was added to the infrastructure balance; however, the value of the replaced highway was not removed. As a result, infrastructure assets are overstated by approximately \$44.1 million and accumulated depreciation is overstated by the same amount.
- ▶ During fiscal year 2002-03, the AM module accurately computed one month's depreciation expenses for assets put in place during the year as required by the department policy. Department policy assumes that all assets completed are placed in service as of the last month of the fiscal year, so one month's depreciation expense should have been recorded. The assets were added to the AM module, however the depreciation expense was not posted to the general ledger, as it should have been.

As a result, expenses and accumulated depreciation are understated by approximately \$729,585. Department personnel do not know why the AM transaction did not create the appropriate depreciation expenditure transaction on the general ledger. A similar transaction posted in fiscal year 2001-02 did create the needed depreciation expense on the general ledger.

The department had a significant amount of information to process to record the costs of over \$2 billion of highway infrastructure assets on the accounting system. In addition, system problems with the Department of Administration's AM module and the general ledger have contributed significantly to the difficulty in correctly recording infrastructure. The department should work with the Department of Administration to identify and correct the system problems.

We believe the errors noted above and the magnitude of dollars involved necessitates the department establish management controls to ensure the reasonableness of the transactions recorded for infrastructure assets. These controls should include a review of the overall logic of the transactions as well as a reasonableness review of the accounting ledgers.

## Findings and Recommendations

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### **Recommendation #4**

**We recommend the department establish management controls to ensure the accuracy of the transactions recorded for infrastructure assets.**

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### **Cash Change Funds**

In our two previous audits of the department we identified concerns about issuing, monitoring, and returning of cash change funds used by Motor Carrier Services officers. In our last report we noted the department had attempted to correct deficiencies and we recommended the department monitor existing procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.

In our current audit we reviewed this activity and found that the department established policies in January 2003, but the policies have not been fully implemented. The amount recorded on the accounting system as of May 2003 was not supported by department records.

We found the department could not provide an accurate list of the officers that have cash change funds in May 2003. One individual on the list provided was terminated in July 2002, but was still included on the list as having a cash change fund. Documentation existed at the department which indicated the cash was returned by the employee. Another individual was listed as having cash but said he had never received it, and the department could not provide documentation to prove the cash had been given to the employee. As of June 30, 2003, the department has adjusted the accounting records to accurately reflect the balance of cash change funds.

### **Recommendation #5**

**We recommend the department fully implement established procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.**

## Findings and Recommendations

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### Reconciliation of Travel Advances

Department personnel use the department's Payroll/Personnel system to track travel advances paid to employees. Department employees may obtain travel advances through the Human Resource (HR) module of the accounting system or through a warrant. Two different accounts on the accounting system are used for the two methods of obtaining a travel advance. For fiscal years 2001-02 and 2002-03, we found the total of advances from the department's system does not equal the total of the two accounts on the accounting system. Department personnel have not reconciled the total on its system to the applicable accounts on the accounting system since the July 1, 1999, inception of the new accounting system.

If an employee receives an advance through a warrant, the department's system needs to be manually updated. Without a complete reconciliation of the accounting system to the department's system, the department cannot be assured all outstanding advances are included on the department's system. Completeness of the department's system is important because it is used to monitor travel advances and is used to determine if the employee has an outstanding travel advance that needs to be repaid before termination.

Department personnel said they are comfortable with the balances on their system. The two systems are not in balance because the employee's advance detail was not carried forward from the previous accounting system to the HR module in the new accounting system. Department personnel indicated a project to reconcile the two accounts and the department's system is planned for the fall of 2003.

We believe the department should establish procedures to regularly reconcile and record transactions necessary to ensure the subsystem used by the department to monitor travel advances is complete and agrees with the state's accounting system.

## Findings and Recommendations

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### **Recommendation #6**

**We recommend the department regularly reconcile its Payroll/Personnel system to the state's accounting system for travel advances.**

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### **Subrecipient Monitoring**

In each of the last three audits of the department, we recommended the department establish procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations. In June 2002, department personnel reviewed subrecipient monitoring procedures used for the three federal programs that subgrant funds. The conclusion of this work was that adequate procedures existed; however, no review of actual subgrant monitoring activities was included in this work. In June 2003, the department implemented central procedures to determine if program personnel that are responsible for monitoring subrecipients were using procedures that had been reviewed earlier.

Despite these efforts, we found that one federal program did not adequately monitor its subrecipients during the audit period. Personnel from the Highway Traffic Safety Program stated that during the audit period, their system to monitor subrecipients did not include all federal requirements. Personnel indicated that procedures to monitor subrecipients have been finalized and will be implemented.

### **Recommendation #7**

**We recommend the Highway Traffic Safety Program monitor subrecipients as required by federal regulations.**

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### **Accounting Misstatements**

State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use and disposition of all money, for which it is accountable, in accordance with generally accepted accounting principles. The following report section discusses instances where the transactions recorded by the department resulted in misstatements on the accounting records.

## Findings and Recommendations

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### Federal Indirect Cost Recovery Revenue

In fiscal year 2001-02 and fiscal year 2002-03 the department received approximately \$5.1 million and \$31.4 million, respectively, in federal indirect cost revenue. The large increase in fiscal year 2002-03 is due to the passage of House Bill 21 during the August 2002 Special Session of the Legislature. This law, effective for fiscal year 2002-03, requires all state agencies to recover indirect costs to the maximum extent possible. As a result, the department recovered indirect costs at a 13.44 percent rate in fiscal year 2002-03, compared to a 2 percent rate in fiscal year 2001-02.

House Bill 21 specifically requires that all indirect cost reimbursements be deposited in the fund from which the indirect costs were originally paid. The department originally pays its direct costs of federal projects from the State Special Revenue Fund. As part of the federal billing process, all of these direct costs, along with the federal share of indirect costs, are moved to the Federal Special Revenue Fund.

Department personnel believe the way they record the federal indirect cost revenue in the Federal Special Revenue Fund is appropriate because the federal indirect costs recognized in the federal fund are those attributed to the federal projects. Although this may be true, it is not in compliance with the law. The department should record all indirect cost recovery revenues where the indirect costs are originally charged as required by state law.

#### **Recommendation #8**

**We recommend the department record indirect cost recovery revenue in compliance with state law.**

## Findings and Recommendations

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### Depreciation of Capital Assets

During fiscal year 2001-02 and 2002-03, we noted the following two issues that caused depreciation expense to be misstated on the accounting records.

- ▶ The Asset Management (AM) module of the Statewide Accounting, Budgeting, Human Resource System (SABHRS) computes depreciation expense for the department's capitalized assets. AM charges depreciation to the program year entered until the asset is fully depreciated. The program year establishes if the expenditure item is a current year expenditure or prior year expenditure. As a result, all depreciation expenses calculated for assets with a program year other than the current fiscal year, is recorded as prior year expense on SABHRS. Normally, depreciation expense is a current year expense. This error was discovered during fiscal year 2002-03 and is not an issue that the department was aware of or could have fixed in the AM module for fiscal year 2001-02. Current year expenses are understated and prior year expenses are overstated by approximately \$3.4 million in fiscal year 2001-02 and \$229,867 in fiscal year 2002-03.
- ▶ During fiscal years 2001-02 and 2002-03 the department entered incorrect subclass information for some assets on the AM module. Subclass information from the AM module is used to classify assets and their related expenses on SABHRS. Department personnel indicated that this occurred because of problems with edits in AM. As a result, depreciation expense is recorded in the wrong program in each year of the audit period as summarized below.

<u>Fiscal Year 2001-02</u>	<u>(Over) Understated</u>
Motor Pool Program	\$1,355,855
Equipment Program	\$4,323,636
General Operations	(\$6,679,520)
<u>Fiscal Year 2002-03</u>	
General Operations	(\$1,109,383)
Aeronautics Program	\$1,109,383

## Findings and Recommendations

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As discussed on page 13 of this report, the department cannot correct the system problems with the AM module discussed above. The department should work with the Department of Administration to identify and correct the system problems so depreciation expense is recorded properly on the accounting records.

### **Recommendation #9**

**We recommend the department properly record depreciation expense on the accounting records.**



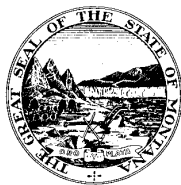
# **Independent Auditor's Report & Department Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust for the fiscal year ended June 30, 2003; Schedule of Changes in Fund Balances for the fiscal year ended June 30, 2002; and the Schedules of Total Revenues & Transfers-In, and the Schedules of Total Expenditures & Transfers-Out of the Department of Transportation for each of the two fiscal years ended June 30, 2003, and June 30, 2002. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

Because of the process used by the Department of Transportation to record federal reimbursements for its indirect costs, Indirect Cost Recovery revenue and expenditures in the State Special Revenue Fund are understated by approximately \$31.4 million in fiscal year 2002-03.

In our opinion, except for the effects of recording federal reimbursements for its indirect costs as discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Transportation for each of the fiscal years ended June 30, 2003, and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,  
*Signature on File*

James Gillett, CPA  
Deputy Legislative Auditor

September 1, 2003



DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private-Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2002	\$ (212,846)	\$ 78,490,075	\$ 100,132	\$ 13,515,925	\$ 891,543	\$ 53,865,653		\$ 323,575	\$ 1,216
PROPERTY HELD IN TRUST: July 1, 2002							\$ 0		
ADDITIONS									
Budgeted Revenues & Transfers-In	1,671,914	223,089,204	314,076,364		119,046	22,936,354			13,120
NonBudgeted Revenues & Transfers-In	322,104	6,964,440		3,892,103	14	42,346		4,363	
Prior Year Revenues & Transfers-In Adjustments	162,117	(2,459,278)				330,880			(123)
Direct Entries to Fund Balance	(1,964,567)	(33,113,428)	(132)		(116,682)	2,390,244			(13,026)
Additions to Property Held in Trust							30,001		
Total Additions	191,568	194,480,938	314,076,232	3,892,103	2,378	25,699,824	30,001	4,363	(29)
REDUCTIONS									
Budgeted Expenditures & Transfers-Out		171,953,166	314,176,724		79,809	21,052,400			
NonBudgeted Expenditures & Transfers-Out		10,818,486		13,609,478	(15,704)	(153,496)		45,053	
Prior Year Expenditures & Transfers-Out Adjustments		(162,271)	(360)		15,702	(1,338,714)			
Reductions in Property Held in Trust							30,001		
Total Reductions		182,609,381	314,176,364	13,609,478	79,807	19,560,190	30,001	45,053	
FUND BALANCE: June 30, 2003	\$ (21,278)	\$ 90,361,632	\$ 0	\$ 3,798,550	\$ 814,115	\$ 60,005,287	\$ 0	\$ 282,885	\$ 1,187
PROPERTY HELD IN TRUST: June 30, 2003							0		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2001	\$ <u>(516,281)</u>	\$ <u>67,802,628</u>	\$ <u>(144)</u>	\$ <u>13,249,850</u>	\$ <u>805,554</u>	\$ <u>50,703,140</u>	\$ <u>0</u>	\$ <u>242,476</u>
ADDITIONS								
Budgeted Revenues & Transfers-In	1,406,562	224,280,848	284,813,949		150,968	22,369,216		13,138
NonBudgeted Revenues & Transfers-In	254,675	10,920,890	276	13,889,678	23	1,086,378	10,787	
Prior Year Revenues & Transfers-In Adjustments	203	(1,510,993)	706,165			(33,046)		(79)
Direct Entries to Fund Balance	<u>(1,358,005)</u>	<u>(28,197,826)</u>				<u>(729,909)</u>	<u>384,492</u>	<u>(253,151)</u>
Total Additions	<u>303,435</u>	<u>205,492,919</u>	<u>285,520,390</u>	<u>13,889,678</u>	<u>150,991</u>	<u>22,692,639</u>	<u>395,279</u>	<u>(240,092)</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		168,673,634	284,760,756		63,569	21,768,944		
NonBudgeted Expenditures & Transfers-Out		25,281,029		13,623,603	(95)	(3,738,671)	71,704	1,168
Prior Year Expenditures & Transfers-Out Adjustments		850,809	659,358		1,528	1,499,853		
Total Reductions		<u>194,805,472</u>	<u>285,420,114</u>	<u>13,623,603</u>	<u>65,002</u>	<u>19,530,126</u>	<u>71,704</u>	<u>1,168</u>
FUND BALANCE: June 30, 2002	\$ <u><u>(212,846)</u></u>	\$ <u><u>78,490,075</u></u>	\$ <u><u>100,132</u></u>	\$ <u><u>13,515,925</u></u>	\$ <u><u>891,543</u></u>	\$ <u><u>53,865,653</u></u>	\$ <u><u>323,575</u></u>	\$ <u><u>1,216</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private- Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>									
Licenses and Permits	\$ 1,818,036	\$ 25,687,723							\$ 27,505,759
Taxes	15,995	191,211,506	\$ (276)		\$ 14	\$ 657		\$ 12,997	191,240,893
Charges for Services		1,663,640			9,824	22,876,352			24,549,816
Investment Earnings		558,356		\$ 27,281			\$ 4,363		590,000
Fines and Forfeits		88,418							88,418
Sale of Documents, Merchandise and Property		409,228				425,405			834,633
Rentals, Leases and Royalties		221,830			95,132				316,962
Miscellaneous		646,071			6,787	7,166			660,024
Grants, Contracts, Donations and Abandonments		218,347							218,347
Other Financing Sources	322,104	6,889,247		3,864,822	7,303				11,083,476
Federal			314,076,640						314,076,640
Total Revenues & Transfers-In	2,156,135	227,594,366	314,076,364	3,892,103	119,060	23,309,580	4,363	12,997	571,164,968
Less: Nonbudgeted Revenues & Transfers-In	322,104	6,964,440		3,892,103	14	42,346	4,363		11,225,370
Prior Year Revenues & Transfers-In Adjustments	162,117	(2,459,278)				330,880		(123)	(1,966,404)
Actual Budgeted Revenues & Transfers-In	1,671,914	223,089,204	314,076,364	0	119,046	22,936,354	0	13,120	561,906,002
Estimated Revenues & Transfers-In	1,619,126	224,689,651	253,496,926		138,000	24,157,701		12,000	504,113,404
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 52,788	\$ (1,600,447)	\$ 60,579,438	\$ 0	\$ (18,954)	\$ (1,221,347)	\$ 0	\$ 1,120	\$ 57,792,598
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>									
Licenses and Permits	\$ 37,093	\$ (215,944)							\$ (178,851)
Taxes	15,695	1,655,673						\$ 1,120	1,672,488
Charges for Services		(2,248,367)			\$ 1,824	\$ (1,212,615)			(3,459,158)
Investment Earnings		(173,372)							(173,372)
Fines and Forfeits		(36,582)							(36,582)
Sale of Documents, Merchandise and Property		(618,971)				(12,098)			(631,069)
Rentals, Leases and Royalties		53,030			(16,368)				36,662
Miscellaneous		185,560			3,287	3,366			192,213
Grants, Contracts, Donations and Abandonments		(114,474)							(114,474)
Other Financing Sources					(7,697)				(7,697)
Federal		(75,000)	\$ 60,579,438						60,504,438
Federal Indirect Cost Recoveries		(12,000)							(12,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 52,788	\$ (1,600,447)	\$ 60,579,438	\$ 0	\$ (18,954)	\$ (1,221,347)	\$ 0	\$ 1,120	\$ 57,792,598

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private-Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>									
Licenses and Permits	\$ 1,406,765	\$ 26,748,429							\$ 28,155,194
Taxes		189,968,913	\$ (5,124)		\$ 23	\$ 213		\$ 13,059	189,977,084
Charges for Services		2,955,294			12,073	22,283,296			25,250,663
Investment Earnings		898,518		\$ 140,881			\$ 10,787		1,050,186
Fines and Forfeits		213,476							213,476
Sale of Documents, Merchandise and Property		709,867				526,823			1,236,690
Rentals, Leases and Royalties		201,367			111,089				312,456
Miscellaneous		826,072			2,354				828,426
Grants, Contracts, Donations and Abandonments		249,326							249,326
Other Financing Sources	254,675	10,844,483		13,748,797	25,452	612,216			25,485,623
Federal		75,000	285,525,514						285,600,514
Total Revenues & Transfers-In	1,661,440	233,690,745	285,520,390	13,889,678	150,991	23,422,548	10,787	13,059	558,359,638
Less: Nonbudgeted Revenues & Transfers-In	254,675	10,920,890	276	13,889,678	23	1,086,378	10,787		26,162,707
Prior Year Revenues & Transfers-In Adjustments	203	(1,510,993)	706,165			(33,046)		(79)	(837,750)
Actual Budgeted Revenues & Transfers-In	1,406,562	224,280,848	284,813,949	0	150,968	22,369,216	0	13,138	533,034,681
Estimated Revenues & Transfers-In	1,838,726	222,356,589	253,289,870		138,000	25,461,448		12,000	503,096,633
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (432,164)	\$ 1,924,259	\$ 31,524,079	\$ 0	\$ 12,968	\$ (3,092,232)	\$ 0	\$ 1,138	\$ 29,938,048
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>									
Licenses and Permits	\$ (432,164)	\$ 317,556							\$ (114,608)
Taxes		2,779,274						\$ 1,138	2,780,412
Charges for Services		(1,305,149)			\$ 4,073	\$ (3,030,107)			(4,331,183)
Investment Earnings		259,332							259,332
Fines and Forfeits		88,476							88,476
Sale of Documents, Merchandise and Property		(318,333)				(12,125)			(330,458)
Rentals, Leases and Royalties		31,442			(411)				31,031
Miscellaneous		167,156			(1,146)	(50,000)			116,010
Grants, Contracts, Donations and Abandonments		(83,495)							(83,495)
Other Financing Sources					10,452				10,452
Federal			\$ 31,524,079						31,524,079
Federal Indirect Cost Recoveries		(12,000)							(12,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (432,164)	\$ 1,924,259	\$ 31,524,079	\$ 0	\$ 12,968	\$ (3,092,232)	\$ 0	\$ 1,138	\$ 29,938,048

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2003											
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	AERONAUTICS PROGRAM	CONSTRUCTION PROGRAM	DEBT SERVICE	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	INTERFUND TRANSFERS PROGRAM	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIVISION	STATE MOTOR POOL	TRANSPORTATION PLANNING DIVISION	Total
Personal Services											
Salaries	\$ 343,964	\$ 40,539,977		\$ 4,267,855	\$ 6,208,119		\$ 26,081,918	\$ 3,215,365	\$ 195,145	\$ 2,213,231	\$ 83,065,574
Other Compensation	4,350	4,450									8,800
Employee Benefits	91,081	10,019,213		1,325,031	1,482,998		7,723,883	958,356	60,387	592,826	22,253,775
Personal Services-Other	(2)			11,027					4,228		15,253
Total	<u>439,393</u>	<u>50,563,640</u>		<u>5,603,913</u>	<u>7,691,117</u>		<u>33,805,801</u>	<u>4,173,721</u>	<u>259,760</u>	<u>2,806,057</u>	<u>105,343,402</u>
Operating Expenses											
Other Services	189,930	275,742,364		658,506	6,415,510		13,957,940	(4,813)	224,983	1,632,887	298,817,307
Supplies & Materials	56,445	1,613,709		3,822,456	1,189,173		1,272,091	82,564	722,477	141,968	8,900,883
Communications	13,023	507,162		7,878	683,226		393,097	61,026	2,063	75,275	1,742,750
Travel	28,094	1,224,037		34,556	175,229		162,899	77,476		115,202	1,817,493
Rent	15,195	3,416,819		10,274	368,244		15,321,033	202,096	64,999	117,444	19,516,104
Utilities	35,007	54,191		81,920			2,401,597	68,101	12,931	1,647	2,655,394
Repair & Maintenance	60,834	687,991		2,781,332	145,481		15,068,584	38,486	225,074	388	19,008,170
Other Expenses	(1,103,466)	533,718		6,596,048	1,934,146		259,750	208,004	1,726,272	37,829	10,192,301
Goods Purchased For Resale	14,328									17	14,345
Total	<u>(690,610)</u>	<u>283,779,991</u>		<u>13,992,970</u>	<u>10,911,009</u>		<u>48,836,991</u>	<u>732,940</u>	<u>2,978,799</u>	<u>2,122,657</u>	<u>362,664,747</u>
Equipment & Intangible Assets											
Equipment		471,809		(2,741,749)	(641,030)		169,513		(17,350)	122,429	(2,636,378)
Livestock							373				373
Intangible Assets		371,095			31,025					9,500	411,620
Total		<u>842,904</u>		<u>(2,741,749)</u>	<u>(610,005)</u>		<u>169,886</u>		<u>(17,350)</u>	<u>131,929</u>	<u>(2,224,385)</u>
Capital Outlay											
Land & Interest In Land		9,531,466					65,355				9,596,821
Buildings											
Other Improvements	1,146,761	1,063,865			(1,146,761)						1,063,865
Total	<u>1,146,761</u>	<u>10,595,331</u>			<u>(1,146,761)</u>		<u>65,355</u>				<u>10,660,686</u>
Grants											
From State Sources	316,614	359,175			16,741,000					1,412,873	18,829,662
From Federal Sources		7,421,513								2,574,948	9,996,461
From Other Sources										249,501	249,501
Total	<u>316,614</u>	<u>7,780,688</u>			<u>16,741,000</u>					<u>4,237,322</u>	<u>29,075,624</u>
Transfers											
Accounting Entity Transfers	329,408		\$ (27,281)		100,000	\$ 10,385,403					10,787,530
Total	<u>329,408</u>		<u>(27,281)</u>		<u>100,000</u>	<u>10,385,403</u>					<u>10,787,530</u>
Debt Service											
Bonds			13,609,478		750						13,610,228
Installment Purchases									162,440		162,440
Total			<u>13,609,478</u>		<u>750</u>				<u>162,440</u>		<u>13,772,668</u>
Total Expenditures & Transfers-Out	\$ <u>1,541,566</u>	\$ <u>353,562,554</u>	\$ <u>13,582,197</u>	\$ <u>16,855,134</u>	\$ <u>33,687,110</u>	\$ <u>10,385,403</u>	\$ <u>82,878,033</u>	\$ <u>4,906,661</u>	\$ <u>3,383,649</u>	\$ <u>9,297,965</u>	\$ <u>530,080,272</u>
EXPENDITURES & TRANSFERS-OUT BY FUND											
State Special Revenue Fund	\$ 1,349,091	\$ 60,980,624	\$ (27,281)		\$ 27,341,365	\$ 10,385,403	\$ 76,480,395	\$ 4,906,661		\$ 1,193,123	\$ 182,609,381
Federal Special Revenue Fund	131,185	292,581,930			7,005,822		6,397,638			8,059,789	314,176,364
Debt Service Fund			13,609,478								13,609,478
Enterprise Fund	61,290				18,517						79,807
Internal Service Fund				\$ 16,855,134	(678,594)				\$ 3,383,649		19,560,189
Private Purpose Trust Fund										45,053	45,053
Total Expenditures & Transfers-Out	<u>1,541,566</u>	<u>353,562,554</u>	<u>13,582,197</u>	<u>16,855,134</u>	<u>33,687,110</u>	<u>10,385,403</u>	<u>82,878,033</u>	<u>4,906,661</u>	<u>3,383,649</u>	<u>9,297,965</u>	<u>530,080,272</u>
Less: Nonbudgeted Expenditures & Transfers-Out	344,660	0	13,582,197	(600,349)	(399,985)	10,385,403			946,838	45,053	24,303,817
Prior Year Expenditures & Transfers-Out Adjustments	(44,693)	(3,788)		(1,137,879)	(234,316)		(2,049)	(40,332)	(22,226)	(360)	(1,485,643)
Actual Budgeted Expenditures & Transfers-Out	<u>1,241,599</u>	<u>353,566,342</u>	<u>0</u>	<u>18,593,362</u>	<u>34,321,411</u>	<u>0</u>	<u>82,880,082</u>	<u>4,946,993</u>	<u>2,459,037</u>	<u>9,253,272</u>	<u>507,262,098</u>
Budget Authority	2,132,449	431,882,271		19,469,315	46,786,703		90,615,326	5,279,585	5,260,595	19,266,892	620,693,136
Unspent Budget Authority	\$ <u>890,850</u>	\$ <u>78,315,929</u>	\$ <u>0</u>	\$ <u>875,953</u>	\$ <u>12,465,292</u>	\$ <u>0</u>	\$ <u>7,735,244</u>	\$ <u>332,592</u>	\$ <u>2,801,558</u>	\$ <u>10,013,620</u>	\$ <u>113,431,038</u>
UNSPENT BUDGET AUTHORITY BY FUND											
State Special Revenue Fund	\$ 495,089	\$ 29,892,984			\$ 6,164,831		\$ 7,543,384	\$ 332,592		\$ 2,048,185	\$ 46,477,065
Federal Special Revenue Fund	366,815	48,422,945			6,300,461		191,860			7,965,435	63,247,516
Enterprise Fund	28,946										28,946
Internal Service Fund				\$ 875,953					\$ 2,801,558		3,677,511
Unspent Budget Authority	\$ <u>890,850</u>	\$ <u>78,315,929</u>	\$ <u>0</u>	\$ <u>875,953</u>	\$ <u>12,465,292</u>	\$ <u>0</u>	\$ <u>7,735,244</u>	\$ <u>332,592</u>	\$ <u>2,801,558</u>	\$ <u>10,013,620</u>	\$ <u>113,431,038</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	AERONAUTICS PROGRAM	CONSTRUCTION PROGRAM	DEBT SERVICE	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	INTERFUND TRANSFERS PROGRAM	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIVISION	STATE MOTOR POOL	TRANSPORTATION PLANNING DIVISION	Total
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT											
Personal Services											
Salaries	\$ 365,718	\$ 37,974,073		\$ 3,909,421	\$ 5,743,071		\$ 25,321,310	\$ 3,124,251	\$ 189,146	\$ 2,304,985	\$ 78,931,975
Other Compensation	5,600	3,100			600					179	9,479
Employee Benefits	89,251	9,065,928		1,150,650	1,411,472		6,868,744	889,959	55,576	627,274	20,158,854
Personal Services-Other	(95)			57,090					5,278		62,273
Total	<u>460,474</u>	<u>47,043,101</u>		<u>5,117,161</u>	<u>7,155,143</u>		<u>32,190,054</u>	<u>4,014,210</u>	<u>250,000</u>	<u>2,932,438</u>	<u>99,162,581</u>
Operating Expenses											
Other Services	85,027	255,844,162		608,855	6,592,080		11,053,115	68,370	154,861	1,867,990	276,274,460
Supplies & Materials	57,093	1,952,447		3,471,874	1,815,426		1,952,839	92,694	679,648	140,951	10,162,972
Communications	13,752	516,696		9,375	697,551		473,316	65,685	2,231	78,483	1,857,089
Travel	42,527	1,486,629		26,684	221,347		265,838	106,770	159	150,009	2,299,963
Rent	10,905	2,912,232		12,311	392,245		15,783,330	153,694	64,800	89,832	19,419,349
Utilities	24,606	59,839		77,568			2,185,602	67,435	11,117	3,305	2,429,472
Repair & Maintenance	51,632	899,990		2,920,429	147,873		15,293,348	65,536	212,475	3,609	19,594,892
Other Expenses	63,725	493,651		730,081	6,651,215		188,103	169,953	202,718	55,506	8,554,952
Goods Purchased For Resale	12,596			(73)	37						12,560
Total	<u>361,863</u>	<u>264,165,646</u>		<u>7,857,104</u>	<u>16,517,774</u>		<u>47,195,491</u>	<u>790,137</u>	<u>1,328,009</u>	<u>2,389,685</u>	<u>340,605,709</u>
Equipment & Intangible Assets											
Equipment	15,409	504,299		(173,136)	(453,217)		118,281			17,774	29,410
Intangible Assets		270,103								1,500	271,603
Total	<u>15,409</u>	<u>774,402</u>		<u>(173,136)</u>	<u>(453,217)</u>		<u>118,281</u>			<u>19,274</u>	<u>301,013</u>
Capital Outlay											
Land & Interest In Land		8,237,925					26,822				8,264,747
Other Improvements		1,864,747									1,864,747
Total		<u>10,102,672</u>					<u>26,822</u>				<u>10,129,494</u>
Grants											
From State Sources	293,054	622,800			16,741,000					1,040,439	18,697,293
From Federal Sources		2,752,480								2,520,927	5,273,407
From Other Sources										182,021	182,021
Total	<u>293,054</u>	<u>3,375,280</u>			<u>16,741,000</u>					<u>3,743,387</u>	<u>24,152,721</u>
Transfers											
Accounting Entity Transfers	280,127		\$ (188,055)		4,726,959	\$ 20,451,870					25,270,901
Total	<u>280,127</u>		<u>(188,055)</u>		<u>4,726,959</u>	<u>20,451,870</u>					<u>25,270,901</u>
Debt Service											
Bonds			107,676		376				13,515,926		13,623,978
Installment Purchases									270,792		270,792
Total			<u>107,676</u>		<u>376</u>				<u>13,786,718</u>		<u>13,894,770</u>
Total Expenditures & Transfers-Out	<u>\$ 1,410,927</u>	<u>\$ 325,461,101</u>	<u>\$ (80,379)</u>	<u>\$ 12,801,129</u>	<u>\$ 44,688,035</u>	<u>\$ 20,451,870</u>	<u>\$ 79,530,648</u>	<u>\$ 4,804,347</u>	<u>\$ 15,364,727</u>	<u>\$ 9,084,784</u>	<u>\$ 513,517,189</u>
EXPENDITURES & TRANSFERS-OUT BY FUND											
State Special Revenue Fund	\$ 1,347,468	\$ 58,467,027	\$ (188,055)		\$ 33,312,294	\$ 20,451,870	\$ 74,968,294	\$ 4,804,347		\$ 1,642,227	\$ 194,805,472
Federal Special Revenue Fund		266,931,322			6,494,001		4,562,354			7,432,437	285,420,114
Debt Service Fund			107,676						\$ 13,515,927		13,623,603
Enterprise Fund	63,459				1,543						65,002
Internal Service Fund				\$ 12,801,129	4,880,197				1,848,800		19,530,126
Private Purpose Trust Fund		62,752								8,952	71,704
Permanent Fund										1,168	1,168
Total Expenditures & Transfers-Out	<u>1,410,927</u>	<u>325,461,101</u>	<u>(80,379)</u>	<u>12,801,129</u>	<u>44,688,035</u>	<u>20,451,870</u>	<u>79,530,648</u>	<u>4,804,347</u>	<u>15,364,727</u>	<u>9,084,784</u>	<u>513,517,189</u>
Less: Nonbudgeted Expenditures & Transfers-Out	290,160	62,752	(80,379)	(5,329,581)	8,159,638	20,451,870			11,674,158	10,120	35,238,738
Prior Year Expenditures & Transfers-Out Adjustments	(9,088)	730,498		100,356	1,659,336		465,373	(9,414)	(48,021)	122,506	3,011,546
Actual Budgeted Expenditures & Transfers-Out	<u>1,129,855</u>	<u>324,667,851</u>	<u>0</u>	<u>18,030,354</u>	<u>34,869,061</u>	<u>0</u>	<u>79,065,275</u>	<u>4,813,761</u>	<u>3,738,590</u>	<u>8,952,158</u>	<u>475,266,905</u>
Budget Authority	2,333,950	370,504,223		19,164,862	47,387,359		84,347,914	5,072,377	6,543,194	14,576,596	549,930,475
Unspent Budget Authority	<u>\$ 1,204,095</u>	<u>\$ 45,836,372</u>	<u>\$ 0</u>	<u>\$ 1,134,508</u>	<u>\$ 12,518,298</u>	<u>\$ 0</u>	<u>\$ 5,282,639</u>	<u>\$ 258,616</u>	<u>\$ 2,804,604</u>	<u>\$ 5,624,438</u>	<u>\$ 74,663,570</u>
UNSPENT BUDGET AUTHORITY BY FUND											
State Special Revenue Fund	\$ 731,882	\$ 14,701,843			\$ 5,687,199		\$ 4,283,751	\$ 258,616		\$ 1,085,845	\$ 26,749,136
Federal Special Revenue Fund	412,500	31,134,529			6,831,099		998,888			4,538,593	43,915,609
Enterprise Fund	59,713										59,713
Internal Service Fund				\$ 1,134,508					\$ 2,804,604		3,939,112
Unspent Budget Authority	<u>\$ 1,204,095</u>	<u>\$ 45,836,372</u>	<u>\$ 0</u>	<u>\$ 1,134,508</u>	<u>\$ 12,518,298</u>	<u>\$ 0</u>	<u>\$ 5,282,639</u>	<u>\$ 258,616</u>	<u>\$ 2,804,604</u>	<u>\$ 5,624,438</u>	<u>\$ 74,663,570</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Montana Department of Transportation

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2003

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#### 1. **Summary of Significant Accounting Policies**

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##### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, and Permanent Funds). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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##### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

## Notes to the Financial Schedules

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from the transactions posted to the state's accounting system without adjustment.

The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally accepted accounting principles (GAAP) by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

### **Governmental Fund Category**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**State Special Revenue Fund** - to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. State Special Revenue Funds include the Highway Special Revenue, Highway Non-Restricted, Petroleum Storage Tank Cleanup, Motorboat Fuel Tax, and Aeronautics Division.

**Federal Special Revenue Fund** - to account for money received from federal sources used for the operation of state government. Federal Special Revenue Funds include activity such as Highway Planning & Construction, Federal Transportation Administration Grants, and Highway Traffic Safety Program.

**Debt Service Fund** - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund to account for the Series 1993 Highway Revenue Refunding Bonds.

**Permanent Fund** - to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund for the Noxious Weed Management Program.

### **Proprietary Fund Category**

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include the financial activity of the West Yellowstone airport.

**Internal Service Fund** - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the State Motor Pool and the Highway Equipment.

### **Fiduciary Fund Category**

**Private-Purpose Trust Fund** - to account for activity of trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds include Woodville Hill Abandonment and Moore-Sipple Connector.

**Agency Fund** - to account for resources held by the state in a custodial capacity. Department Agency Funds include Rail Construction and Aeronautics Private Funds.

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### **2. General Fund Balance (negative balances)**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for the fiscal years ended June 30, 2003, and June 30, 2002.

## Notes to the Financial Schedules

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### **3. Direct Entries to Fund Balance**

The majority of the direct entries to fund balance(s) in the State Special Revenue Fund are entries generated by SABHRS to reflect the flow of resources within the Highways Special Revenue Fund shared between the department and the Department of Justice.

### **4. Long-Term Debt**

As of June 30, 2003, the department has outstanding 1993 Highway Revenue Bonds of \$3,705,000. The entire outstanding balance will be paid off during fiscal year 2003-04.

### **5. Activity Between and Within Funds at the Department**

During the normal course of operations, the department has transactions within funds and between funds to finance operations, provide services, and service debt. The following describes the activity for the two fiscal years ending June 30, 2003.

#### **Equipment Program**

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for Services revenues are recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. The major programs using equipment are the Maintenance Program, the Construction Program, and the Motor Carrier Services Program. Charges for Services revenue for the equipment program was approximately \$18.6 million in fiscal year 2001-02 and \$18.8 million in fiscal year 2002-03.

#### **Transfers**

During fiscal year 2001-02 and 2002-03 approximately \$7.6 million and \$6.5 million, respectively, were transferred from the State Special Revenue Fund Highway Non-Restricted account to the State Special Revenue Fund Highway Special Revenue account for management purposes.

During fiscal years 2001-02 and 2002-03, \$13,748,797 and \$3,864,246, respectively, were transferred from the Highway Special Revenue Account to the Debt Service Account for bond payments.

## **Department Response**

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**Montana Department of Transportation**

2701 Prospect Avenue  
PO Box 201001  
Helena MT 59620-1001

David A. Galt, Director

Judy Martz, Governor

December 1, 2003

Scott A. Seacat, Legislative Auditor  
Legislative Audit Division  
State Capitol Room 160  
Helena, MT 59620-1705

Subject: Financial compliance Audit for fiscal years 2001-2002 and 2002-2003.

Dear Scott,

Here is our detailed response (including a Management Action Plan) to the audit performed by your office for the two fiscal years ending June 30, 2003. We very much appreciated your staff's effort, cooperation, and professionalism during this audit.

As always, this department is committed to complying with state and federal laws, implementing and maintaining effective accounting controls, and presenting an accurate and fair financial picture.

Sincerely,

David A. Galt  
Director

attachments

copies: Monte Brown, Administration Division Administrator  
Dennis Sheehy, Internal Audit Unit Manager  
Darrell Zook, Accounting Services Bureau Chief

**Page B-3**

Montana Department of Transportation



**LAD Audit Recommendations and  
Agency Responses**

**Recommendation #1**

*We recommend the department evaluate, revise, and monitor control procedures to ensure compliance with federal Davis-Bacon Act provisions.*

Response

**Concur**

The Civil Rights Bureau (CRB) will review their processes and procedures to ensure compliance with the Davis-Bacon Act. Steps already taken include notification to managers and supervisors and scheduling appropriate training classes in January and February of 2004. Also, CRB will work with the Construction Bureau to implement a notification of subcontract process this fall.

**Recommendation #2**

*We recommend the department continue to implement management control procedures to ensure the continuity of the Highway Traffic Safety Program and to maximize the use of federal funds related to the program.*

Response

**Concur**

The Department will continue implementation efforts to comply with findings from an audit performed by the National Highway Traffic Safety Administration (NHTSA). NHTSA will be returning in April 2004 to perform a follow-up review.

**Recommendation #3**

*We recommend the department establish a system to monitor and collect audit assessments for International Fuel Tax Agreement, International Registration Plan, and Special Fuel Users audits.*

Response

**Concur**

The Administration Division, Motor Carrier Services Division, and Internal Audit Unit will jointly develop and implement a system to monitor the audit assessment process for International Fuel Tax Agreement, International Registration Plan, and Special Fuel User audits by January 2004.

**Recommendation #4**

*We recommend the department establish management controls to ensure the accuracy of the transactions recorded for infrastructure assets.*

Response

**Concur**

The Accounting Services Bureau will establish procedures to monitor the effects of recording infrastructure asset transactions through SABHRS. We will also submit change requests to the Department of Administration to address identified SABHRS problems. This is a statewide enterprise problem that MDT will work with the Department of Administration to solve. MDT staff provided the Department of Administration with the correct information to make a CAAFR adjustment.

**Recommendation #5**

*We recommend the department fully implement established procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.*

Response

**Concur**

Accounting Services Bureau has implemented a policy to establish procedures to ensure issuance, custody and return of cash change funds as of June 30, 2003.

**Recommendation #6**

*We recommend the department regularly reconcile its Payroll/Personnel system to the state's accounting system for travel advances.*

Response

**Concur**

The Accounting Services Bureau implemented a Travel Advance reconciliation process to be performed on a monthly basis.

**Recommendation #7**

*We recommend the Highway Traffic Program monitor subrecipients as required by federal regulations.*

Response

**Concur**

The Highway Traffic Safety program staff will develop and implement policies and procedures to comply with state and federal guidelines in conjunction with the corrective action described in Recommendation #2.

**Recommendation #8**

*We recommend the department record indirect cost recovery revenue in compliance with state accounting policy and law.*

Response

**Concur**

MDT followed state accounting policy with regard to which fund we accounted for indirect cost recoveries. The expenditures and revenues were properly recorded in the Federal Special Revenue fund. House Bill 21 requires indirect cost recoveries to be deposited in the fund where those costs were incurred, and MDT met this intent and continues to deposit these monies in our State Special Revenue fund. The cash received remains in the State Special Revenue Fund. The error that actually occurred was that MDT recorded the indirect cost recoveries in the State Special Revenue fund as expenditure abatements rather than Indirect Cost Recovery Revenue.

A revenue account was established in October 2003 to account for Federal Indirect Cost Recoveries. Accounting procedures will be developed and implemented by January 1, 2004 to properly account for Indirect Cost recoveries between our State and Federal Special Revenue Funds.

**Recommendation #9**

*We recommend the department properly record depreciation expense on the accounting records.*

Response

**Concur**

Please see MDT's response to Recommendation #4.



Montana Department of Transportation

# MANAGEMENT ACTION PLAN

Status as of December 1, 2003

*This plan was created in response to the Legislative Audit Division's financial / compliance audit of MDT for the two fiscal years ending June 30, 2002 and 2003*

Audit Recommendations	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date	Status	Person Responsible
<b>Recommendation #1</b> We recommend the department evaluate, revise, and monitor control procedures to ensure compliance with federal Davis-Bacon Act provisions.	Yes	Concur	The Civil Rights Bureau (CRB) will review their processes and procedures to ensure compliance with the Davis-Bacon Act. Specific training has been provided for current Civil Rights Bureau Staff and the Project Manager for this project and the District Construction Supervisor were notified of the error and their role in failing to collect the appropriate payrolls. Notice has been sent to all Project Managers and District Construction Supervisors reminding them that payrolls must be submitted for each and every contractor performing work on a project site. CRB personnel have scheduled payroll classes throughout the state during January and February 2004. Project Managers and contractors will be participating in the classes. Also, CRB will work with the Construction Bureau to implement a notification of subcontract process this fall.	Civil Rights Bureau, Construction Bureau	3/31/2004		Vicky Koch Mark Wissinger

<b>Audit Recommendations</b>	<b>Does this affect a federal program?</b>	<b>Management View</b>	<b>Corrective Action Plan</b>	<b>Responsible Area</b>	<b>Target Date</b>	<b>Status</b>	<b>Person Responsible</b>
<b>Recommendation #2</b> We recommend the department continue to implement the department control procedures to ensure the continuity of the Highway Traffic Safety Program and to maximize the use of federal funds related to the program.	Yes	Concur	The Department will continue implementation efforts to comply with findings from an audit performed by the National Highway Traffic Safety Administration (NHTSA). NHTSA will be returning in April 2004 to perform a follow-up review.	Highway Traffic Safety Bureau	4/1/2004		Priscilla Sinclair
<b>Recommendation #3</b> We recommend the department establish a system to monitor and collect audit assessments for International Fuel Tax Agreement, International Registration Plan, and Special Fuel Users audits.	No	Concur	The Administration Division, Motor Carrier Services Division, and Internal Audit Unit will jointly develop and implement a system to monitor the audit assessment process for International Fuel Tax Agreement, International Registration Plan, and Special Fuel User audits.	Accounting Services Bureau, Fuel Tax Management and Analysis Bureau, Motor Carrier Services Division, Internal Audit Unit	1/1/2004		Darrell Zook Bob Turner Drew Livesay Dennis Sheehy
<b>Recommendation #4</b> We recommend the department establish management controls to ensure the accuracy of the transactions recorded for infrastructure assets.	No	Concur	The Accounting Services Bureau will establish procedures to monitor the effects of recording infrastructure asset transactions through SABHRS. We will also submit change requests to the Department of Administration to address identified SABHRS problems. This is a statewide enterprise problem that MDT will work with the Department of Administration to solve. MDT staff provided the Department of Administration with the correct information to make a CAAFR adjustment.	Accounting Services Bureau	6/30/2004		Gordon McGaw
<b>Recommendation #5</b> We recommend the department fully implement established procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.	No	Concur	Accounting Services Bureau has implemented a policy to establish procedures to ensure issuance, custody and return of cash change funds as of June 30, 2003.	Accounting Services Bureau		Completed	Clayton McElravy

<b>Audit Recommendations</b>	<b>Does this affect a federal program?</b>	<b>Management View</b>	<b>Corrective Action Plan</b>	<b>Responsible Area</b>	<b>Target Date</b>	<b>Status</b>	<b>Person Responsible</b>
<b>Recommendation #6</b> We recommend the department regularly reconcile its Payroll/Personnel system to the state's accounting system for travel advances.	No	Concur	The Accounting Services Bureau implemented a Travel Advance reconciliation process to be performed on a monthly basis.	Accounting Services Bureau	1/1/2004		Bill Hcss
<b>Recommendation #7</b> We recommend the Highway Traffic Program monitor subrecipients as required by federal regulations.	Yes	Concur	The Highway Traffic Safety program staff will develop and implement policies and procedures to comply with state and federal guidelines in conjunction with the corrective action described in Recommendation #2.	Highway Traffic Safety Bureau	1/4/2004		Priscilla Sinclair
<b>Recommendation #8</b> We recommend the department record indirect cost recovery revenue in compliance with state accounting policy and law.	No	Concur	A revenue account was established in October 2003 to account for Federal Indirect Cost Recoveries. Accounting procedures will be developed and implemented to properly account for Indirect Cost recoveries between our State and Federal Special Revenue Funds.	Accounting Services Bureau	1/1/2004		Gordon McGaw
<b>Recommendation #9</b> We recommend the department properly record depreciation expense on the accounting records.	No	Concur	The Accounting Services Bureau will provide training to department staff responsible for entering new assets on the system and establish procedures to monitor Depreciation Expense transactions through SABHRS. We will also submit change requests to the Department of Administration to address identified SABHRS problems. This is a statewide enterprise problem that MDT will work with the Department of Administration to solve.	Accounting Services Bureau	6/30/2004		Gordon McGaw